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OF THE STATE OF CALIFORNIA

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REPLY COMMENTS OF THE PUBLIC ADVOCATES OFFICE ON THE COMMISSION'S ORDER INSTITUTING RULEMAKING REGARDING BUILDING DECARBONIZATION

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I. INTRODUCTION

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits the following reply comments on the *Order Instituting Rulemaking Regarding Building Decarbonization* (OIR), issued on February 8, 2019. The OIR posed a series of questions regarding the scope and technical issues regarding crafting a policy framework on building decarbonization.[1] The Public Advocates Office submits these reply comments to parties Opening Comments filed on March 11, 2019.

II. SUMMARY OF RECOMMENDATIONS

The Public Advocates Office recommends that:

- The Commission should authorize statewide administrators for the Building Initiative for Low emissions Development (BUILD) and Technology and Equipment for Clean Heating (TECH) programs.
- The Commission should authorize a funding mechanism for the BUILD and TECH programs. However, the Commission should not determine specific funding levels, at this time.
- The BUILD and TECH programs should only target customers who incur greenhouse gas (GHG) emissions compliance costs under the Cap-and-Trade program.
- The Commission should consider proposals for rate design principles but should defer the consideration of actual rate design to utility-specific rate design proceedings.

III. RECOMMENDATIONS

1. The Commission should authorize statewide administrators for the BUILD and TECH programs.

In Opening Comments, Southwest Gas Corporation (Southwest Gas)[2] and Southern California Gas Company (SoCalGas)[3] each argued in opening comments that

[1] OIR http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M264/K629/264629773.PDF

[2] *Opening Comments of Southwest Gas Corporation (U 905 G)*, March 11, 2019, (Southwest Gas Comments) pp. 3-6.

[3] *Opening Comments of Southern California Gas Company (U 904 G) on Order Instituting Rulemaking Regarding Building Decarbonization*, March 11, 2019 (SoCalGas Comments), pp. 5-6.

individual utilities would be best positioned to administer programs in their own territories. The Commission should not adopt this recommendation and should instead authorize a process to select a statewide administrator for each program.

Southwest Gas[4] and SoCalGas[5] argue that they and other IOUs are best positioned to oversee the BUILD and TECH programs because they already administer existing energy efficiency and demand-side management programs, and these existing administrative structures allow them to achieve administrative and cost efficiencies. SoCalGas also contends that since many of the technologies that would likely be adopted for the BUILD and TECH programs would qualify for existing demand-side programs, the new programs should be integrated in a "comprehensive approach."[6] These arguments are flawed for two reasons.

First, replication of administrative structures across a number of IOUs is unlikely to result in efficiencies and a more comprehensive approach to program integration. A single administrator could carry out the work more efficiently and cost-effectively than multiple, administrators that are duplicating the same work. In the absence of any compelling evidence that multiple administrative entities would be more efficient and "comprehensive" than a single administrator, the Commission should reject this argument in favor of authorizing a single statewide administrator for all the programs.

Second and more importantly, the fracturing of program administration into local units would not result in the market transformation that these programs require. Markets for new low-carbon technologies are not confined to individual service territories. Therefore, more benefit can be derived from the economies of scale that a single statewide program administration would provide. Interventions to advance the adoption of these new technologies would be most effectively advanced under a single administrator pursuing a comprehensive set of strategies statewide.

[4] Southwest Gas Comments, p. 3.

[5] SoCalGas Comments pp. 5-6.

[6] SoCalGas Comments p. 6.

2. The Commission should authorize a funding mechanism for the BUILD and TECH programs that only target customers who incur GHG emissions compliance costs under the Cap-and-Trade program.

Several parties recommend that the Commission consider a wider range of customers beyond only gas customers, for BUILD and TECH program eligibility. For instance, the California Municipal Utilities Association (CMUA) recommended that all Californians, including customers of Publicly-Owned Utilities (POUs) should be "eligible for and benefit from the programs and measures developed pursuant to Senate Bill (SB 1477) and this OIR."[7] The Joint Community Choice Aggregators (CCAs) recommended that the Commission allow gas customers who receive electric generation from CCA programs have the same access to BUILD and TECH program resources as gas customers that receive electricity from the IOUs.[8]

However, customers that benefit from the BUILD and TECH programs must be customers of an IOU that incurs the cost of greenhouse gas emissions compliance under the Cap-and-Trade programs.

The California Air Resource Board (CARB) regulations require that all auction proceeds from the consignment of these allowances "*shall be used exclusively for the benefit of retail ratepayers of each natural gas supplier, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers. Allocated allowance auction proceeds may be used to reduce greenhouse gas emissions or returned to ratepayers*."[9] Gas utilities that emit more than 25,000 metric tons or more of carbon dioxide equivalents (CO_2e) per year are required to purchase compliance instruments (including allowances and offsets) to cover their GHG emissions compliance obligations under the Cap-and-Trade program. The cost of purchasing these compliance instruments to meet the utilities' compliance obligations is

[7] CMUA, Opening Comments, p. 2.

[8] The Joint CCAs, Opening Comments, p. 3.

[9] Title 17 CCR Section 95893 (d) (3).

passed on to ratepayers. In D.18-03-017, the Commission determined that all the proceeds from the consignment of the directly allocated GHG allowances (free allowances) are to be returned to residential customers in the form of a bill credit, California Climate Credit, primarily to alleviate the compliance cost burden on residential ratepayers and low-income customers.[10]

To implement the BUILD and TECH programs, SB 1477 requires that the Commission allocate $50 million of the revenues obtained from the directly allocated GHG allowances received by gas corporations as a part of the state's market-based GHG compliance mechanism (Cap and Trade). Under the Cap and Trade regulations, CARB allocates GHG allowance proceeds to natural gas suppliers for the benefit of ratepayers. CARB requires that the natural gas suppliers consign to ratepayers a minimum of 25% of the proceeds from GHG allowance sales starting in 2015 and increasing 5% each year through 2030.[11] The Commission determines the mechanism and requirements for the disposition of these proceeds. In D.15-10-032 and, subsequently D.18-03-017, the Commission determined that proceeds obtained from the consignment of directly allocated allowances to gas investor-owned utilities shall *all* be returned to residential customers in the form of a bill credit, the California Climate Credit.[12]

Unlike the Commission's treatment of directly allocated allowances for electric utilities, where 15% of the proceeds from the directly allocated allowances are allocated for clean energy and energy efficiency (EE) projects,[13] the Commission declined to allocate any portion of natural gas supplier-related GHG allowance proceeds towards

[10] "Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute greenhouse gas allowance proceeds to all eligible residential retail customers, as eligible customers are defined in Decision 15-10-032, according to the provisions set forth in subsequent ordering paragraphs and pursuant to the methodology adopted in Decision 15-10-032." D.18-03-017, Order Paragraph 1. Also see, D.18-03-017, Finding of Facts 5, 14 and 15, pp.47-48.

[11] 17 California Code of Regulation (CCR) §95893 Table 9-5 and Table 9-6.

[12] D.15-10-032, Order Paragraph 14, p. 64; and D.18-03-017, Order Paragraphs 17 and 18, pp. 17-18.

[13] D.14-10-033, Order Paragraph, 8, p. 50-51.

clean energy or energy efficiency projects, reasoning that "*we are including natural gas supplier-related GHG compliance costs in gas rates at the same time as natural gas infrastructure costs are increasing. Given the upward pressure on natural gas rates associated with these costs, we prefer to use allowance proceeds to mitigate the upward pressure on customer bills while maintaining a strong price signal to conserve energy and use natural gas efficiently*."[14]

Therefore, since the Commission did not earmark any portion of the allocated allowances to the gas utilities to fund clean energy or energy efficiency projects, the Commission currently lacks a mechanism to allocate $50 million in GHG allowance proceeds for the BUILD and TECH programs, as required by SB 1477. Accordingly, the Commission must authorize a funding mechanism to comply with the statute.

Because the BUILD and TECH programs will be funded from proceeds of the allocated allowances to the investor-owned gas utilities, statutory funding requirements under the Cap-and-Trade regulations would limit the benefits of the BUILD and TECH programs to residential customers of the investor-owned gas utilities who incur the GHG emissions compliance costs. CCA customers should be eligible to participate as long as they are also customers of a gas IOU.

3. It is premature for the Commission to determine specific funding levels for the BUILD or TECH programs.

In their responses, some parties propose specific funding levels for the BUILD and TECH programs or recommend the allocation of funding for specific technologies. For example, the City of Palo Alto recommends the Commission consider funding incentives in BayREN's Regional Heat Pump Water Heater Market Transformation Program as part of the TECH program.[15] Similarly, the California Housing Partnership recommends that at least 70% of funding be allocated to BUILD.[16] However, it is premature to determine

[14] D.15-10-032, p. 35.

[15] Comments of the City of Palo Alto on the Preliminary Scoping Memo., March 11, 2019, pp. 2-3.

[16] Comments of the California Housing Partnership on the Initial Proposed Scope of the Order Instituting Rulemaking Regarding Building Decarbonization, March 11, 2019, p. 3.

specific funding levels for the BUILD and TECH programs or the allocation of funding for specific technologies within either program, in the absence of evidence and analysis that shows the likely uptake for each program, over the initiatives' authorized lifetime. As the Public Advocates Office stated in Opening Comments, the Commission should authorize the Energy Division to contract with a consultant to conduct a market potential study, which in turn can inform decision-making on the budget allocation to the BUILD and TECH programs.[17]

4. The Commission should consider proposals for rate design principles but should defer actual rate design to utility-specific rate design proceedings

In opening comments, the Public Advocates Office argued that the Commission should consider proposals for rate design principles but should defer actual rate design to utility-specific rate design proceedings. The Public Advocates Office maintains this position and agrees with the Environmental Defense Fund (EDF) and The Utility Reform Network (TURN)[18] that specific rate designs should be considered in general rate case proceedings, and not in this proceeding.

Rate design affects revenue allocation and cost allocation, which are subjects that impact a wide range of stakeholders many of who are not parties to this proceeding. General rate case proceedings are the appropriate venues to consider specific rate proposals and ensure that rates are equitable to all ratepayers and sufficient to meet revenue requirements. A quasi-legislative proceeding that does not include effects on revenue collection or many parties likely to be impacted by specific rate design changes is not an appropriate venue. Rather, the Commission should limit the rate design scope in this proceeding to a discussion of rate design principles that would support the state's decarbonization goals.

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[17] Comments of the Public Advocates Office Responding to the Commission's Order Instituting Rulemaking Regarding Building Decarbonization, March 11, 2019, p. 7.

[18] *Opening Comments of Environmental Defense Fund in Response to Order Instituting Rulemaking Regarding Building Decarbonization*, March 11, 2019, pp. 11-12. *Comments of the Utility Reform Network in Response to the Order Instituting Rulemaking,* March 11, 2109, pp. 3-6.

IV. CONCLUSION

The Public Advocates Office requests that the Commission adopt the recommendations in these reply comments.

Respectfully submitted,

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